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WESTERN EUROPE — CANADA — INTERNATIONAL ORGANIZATIONS

This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Transition in Spain Coincides With Economic Slowdown

Juan Carlos will inherit an economy that has experienced a downturn after many years of robust growth.

The sharp deceleration of the economy, beginning last fall, was precipitated by a slump in exports. From 1970 to 1974, Spain's economy grew at a 6-percent annual rate. Because of rapid inflation and a looming payments problem, the government has proceeded cautiously in efforts to revive activity. As a result, the increase in real Gross National Product this year probably will be only 2 percent, roughly half that of 1974.

Industrial production began to falter in the summer of 1974, plunging steeply after October as export orders shrank. In the first quarter of 1975, seasonally adjusted output fell at a 23-percent annual rate before reviving in April. Industrial production has continued to creep up, but remains well below last year's levels.

Industry operated at only about 80 percent of capacity during the first half of this year. Unemployment worsened as output sagged, rising to 4 percent officially in late July, compared with less than 2 percent last year. Consumer prices are rising at a 17.5-percent annual rate--about the same as last year--with wages increasing 20 to 25 percent.

While Madrid has increased spending and lowered the tax on capital gains to bolster output, it increasingly has focused attention on prices. Anti-inflation measures introduced this year include:

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--a linking of further wage increases to rises in the cost of living.

--a freeze on rents and profit margins, and

--a 10-percent tax surcharge on dividends and profits and a 15-percent tax on interest earnings from savings deposits.

The foreign sector is a major constraint on stimulative efforts. Imports are more than double exports, and we expect the trade deficit to rise to more than $9 billion this year from $8.3 billion in 1974. Continued heavy demand for imported oil, together with the recent 10-percent OPEC price hike, will push the oil bill to more than $3.5 billion. Tourist revenues and worker remittances have done well despite the world recession.

We estimate that the current account deficit may be held to slightly more than $3 billion--about the same as last year. Madrid has preferred to borrow abroad to cover the current account gap, although foreign reserves are adequate at $6.3 billion.

Madrid publicly blames its poor trade performance on what it considers unfair treatment by the EC and the US. Spanish-EC trade negotiations have been deadlocked since last year. The EC recently decided not to resume negotiations because of the execution of terrorists. Madrid also is dissatisfied with the results of its attempts to gain more favorable trade treatment from the US. (SECRET)

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Lisbon Makes Further Moves To Restore Order, Authority

The Portuguese government has taken further steps to assert its authority in the wake of Prime Minister Azevedo's trip to Porto last weekend.

The first crackdown by the military on Communist-backed seizures of privately-owned farms occurred on Monday north of Lisbon when a cavalry unit arrested ten squatters near the town of Azambuja.

The security forces said the squatters would be prosecuted for illegal possession of military firearms. An amnesty for turning in such firearms expired on Saturday. An attempt to occupy another farm in the same area was abandoned.

The crackdown by the military is significant in light of the Communist-inspired seizure of over half a million acres of prime farm land in southern Portugal since summer. Because much of this land is now fallow and large numbers of livestock have been slaughtered, the take-overs could confront the government with serious agricultural shortages by next year.

Left-wing demonstrators were ousted on Monday from the civil governor's offices in Faro, in the southern Algarve; the demonstrators were protesting the recent removal of the pro-Communist governor. In another incident, an infantry regiment intervened in Santiago do Cacem to prevent violence when leftist farm workers occupied the local farmers' guild.

The Portuguese army, and particularly Chief of Staff Fabiao, have come in for harsh criticism because of lax discipline and their failure to ensure

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public order. An army spokesman said Monday that 18 percent of the army will be demobilized this week when Fabiao is away on a visit to West Germany.

This cutback will add to the country's unemployment problem, already estimated to be 10 percent of the work force, but it will also give military authorities an opportunity to remove troublemakers from the armed forces.

On the economic front, the government has announced a series of measures intended to stop the flight of capital and strengthen the currency. Foreign exchange transactions by Portuguese nationals are severely limited.

The government-sponsored airlift of Angolan refugees ends this week, by which time nearly 200,000 returnees will have reached Portugal. The embittered and frustrated refugees have refrained from taking direct political action, reportedly for fear of reprisals against friends and relatives still in Angola.

Last weekend, however, a group believed associated with the refugees claimed responsibility for a bomb attack on a left-wing cultural center. The group, which blamed the government refugee agency for the plight of the returnees, said it had decided it would "answer force with force and violence with violence."

Another group of Angolan refugees, calling itself the Liberation Front of Portugal, sent a delegation to the US embassy last week to ask for arms, money, and organizational support. (SECRET)

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Swedish Communist Party Split Worsens

A controversy within the Swedish Communist Party between the party leadership and Stalinist factions in the northern provinces took a turn for the worse last week when the party's executive committee dismissed a northern district chairman. In addition, the chairman and three others were banned from the executive committee.

The long simmering dispute flared up last spring at the party congress. The Stalinists demanded that the party follow more orthodox lines and attacked the leadership for its past criticism of the Soviet invasion of Czechoslovakia and the expulsion of Solzhenitsyn from the Soviet Union. The Stalinists were defeated at the party congress but have continued their attacks in Norrskensflammen, their daily newspaper.

A party split is particularly dangerous for the Communists at this time. Elections are coming up in 1976 and the party must poll four percent of the popular vote to be represented in parliament. The latest opinion polls give the Communists exactly four percent of the popular vote. (CONFIDENTIAL)

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Trade Unionists End World Congress

The International Confederation of Free Trade Unions (ICFTU) concluded its world congress last weekend in Mexico City. Secretary General Otto Kersten and President P. P. Narayanan were re-elected, as expected, for a three-year term. The congress appears to have achieved its objectives without any irreconcilable disagreements between delegations. This smooth sailing was facilitated in large part by a pre-congress agreement not to take up the status of ICFTU's Latin American regional affiliate. An element of confusion--and presumably ennui--was introduced in that the simultaneous translation equipment failed to function during the entire conference.

A number of significant resolutions were adopted on topical political situations including those in Chile, Portugal and Spain. The resolution on Portugal, in particular, gave rise to an acrimonious exchange. The West Germans, with the support of several trade secretariats, managed in the end to include a direct reference to--presumably international--Communist involvement in Portuguese developments.

A highlight of the congress was an emotional discussion of Washington's anticipated notification of intent to withdraw from the International Labor Organization (ILO). Many trade unionists expressed alarm over such a step and most denounced AFL-CIO chief George Meany as the alleged culprit. The American embassy comments that the prevalent feeling among the delegates seemed to be concern that Washington is abandoning the ILO to the Communists. The final resolution expresses strong support for the ILO and reflects concern over the US notification, although withdrawal is not mentioned.

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The delegates gave enthusiastic support to the UN resolution which calls for a new international economic order and the wide-ranging discussion of related issues appears to have been responsible and informed. An especially cogent and balanced speech was given by Devan Nair, the General Secretary of the Singapore labor confederation. Nair harshly criticized the behavior of rich nations in the current economic crisis, but at the same time he castigated the policies of corrupt elitist governments in developing countries that lead to a widening of the gap between haves and have-nots. He also noted that the total contribution in development assistance from Western industrial countries is only about 0.33 percent of their GNP's. Evenhandedly, he charged that it is about time that the UN's Group of 77 looked into the far sorrier record of the developed communist countries.

After many fervid speeches, the congress unanimously adopted a report on multinational companies which calls upon national governments and international organizations urgently to enact legislation to curb their operations. The comprehensive report charges that a voluntary code of conduct aimed at their control is timid and inadequate. It calls for such specific measures as disclosure in an annual company report of shareholders, including minority participation; financial, marketing or technical links with other companies; location of all plants; extensive financial information including that relating to capital structure and movements, profitability, and company solvency and liquidity.

The driving force of the congress were the European delegates. The United Mine Workers and a few international trade secretariat leaders attended from the US, but they appear not to have been especially active. (CONFIDENTIAL)

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